



## *CASH HANDLING INTERNAL CONTROL REVIEW*

*Review of County Change Funds, Revolving Funds and  
Cash Receiving Functions*

*Clark County Auditor's Office  
Report #98-3*

*December 18, 1998*

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CLARK COUNTY AUDITOR

Liz Luce



AUDITOR

LIZ LUCE

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## M E M O R A N D U M

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**DATE:** December 18, 1998  
**TO:** Betty Sue Morris, Chair, Board of Clark County Commissioners  
**FROM:** Liz Luce, Clark County Auditor  
**CC:** Mel Gordon, Clark County Commissioner  
Judie Stanton, Clark County Commissioner  
**RE:** Cash Handling Internal Control Review

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I am enclosing our report presenting the findings and recommendations from our review of selected revolving funds, trust fund checking accounts, change funds and cash receiving functions managed by county departments or closely affiliated agencies. Our review focused on verifying fund balances and assessing the procedures used to handle cash and other payments. In all, our office reviewed forty-eight out of the ninety funds or cash receiving functions. The areas we did not look at were either reviewed by the State Auditor's Office in 1998 or had minimal findings in our 1997 review.

Overall we found adequate internal controls in place and commend the managers and staff for their efforts to maintain complete documentation and employ generally strong internal controls. Our review did not identify any material internal control weaknesses. We did, however, identify a number of opportunities for improvement. We present a summary of our findings and recommendations in Section 4.0 of our report beginning on page 5.

Our cash handling internal control review is part of our broader effort to work with county managers and staff to strengthen internal controls over the handling of public funds. In 1999 we will continue our review of revolving funds, change funds, and cash receiving functions, following up on our prior recommendations and helping departments strengthen their procedures.

We wish to thank the managers and staff responsible for these funds for their cooperation and assistance during our review and for responding to our findings and recommendations. If you have any questions please do not hesitate to contact Cathie Allen or Paul Harris in our office.

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## **1.0 Executive Summary**

### **1.1 Project Overview**

County government is responsible for using public assets and public funds in a prudent and responsible manner. County managers in turn are responsible for developing and maintaining procedures that protect public assets and promote efficient and effective services. These operating procedures are called internal controls. The Clark County Auditor's Office reviewed internal controls over selected revolving funds, change funds and cash receiving functions in 1998.

Clark County and its closely affiliated agencies have a total of ninety funds, accounts and payment receiving functions that are managed by employees located in various facilities. These consist of twelve petty cash revolving funds which total \$14,675, eight checking account revolving funds which total \$58,000, and nineteen change funds which total \$5,050. There are also forty-six areas which receipt money and five trust fund checking accounts which are not revolving funds. Trust fund accounts are typically used to hold funds on behalf of other agencies or individuals. Revolving funds are small amounts of cash ("petty cash") or checking accounts used for expenditures that, for reasons of timing or small dollar amounts, do not justify using the county's purchasing, requisition and warrant process. Change funds provide the necessary cash to make change for customers making payments to the county.

In order to monitor and minimize the risks associated with these areas the Clark County Auditor's Office reviewed forty-eight of the funds, accounts and payment receiving functions in 1998. Our review included those departments with significant findings from our 1997 review, all new accounts or areas not recently reviewed, and all payment receiving functions unless reviewed by the State Auditor's Office in 1998 with no significant findings.

### **1.2 Summary of Findings and Recommendations**

Overall we found the revolving funds, trust funds, and change funds to be well managed with adequate internal controls in place. We also found that most of the payment receiving functions generally had good internal controls. We did, however, identify opportunities to strengthen internal controls for forty-one of the forty-eight areas we reviewed. A summary of our recommendations begins on page 5. Our more frequent recommendations include:

- The fund and related records should be secured so that only the designated fund custodian or alternate custodian has access.
- Deposits should be made within 24 hours of receipt or the following business day to reduce risk of loss and to comply with the Revised Code of Washington.
- Key duties should be separated so that one person is not responsible for receiving, reconciling, depositing money, and posting payments to customer accounts.
- Managers should regularly reconcile the Treasurer's Receipts with the Revenue Ledger.
- Cashiers or other staff should restrictively endorse all checks immediately upon receipt.

## **2.0 Project Objectives and Methodology**

### **2.1 Objectives**

During 1998 the Clark County Auditor's Office Internal Audit Division performed a review of selected revolving funds, trust fund checking accounts, and change funds. We also completed a limited review of the controls over cash received by county departments. Our work focused on reviewing procedures and practices that ensure the funds are properly safeguarded and accounted for and that transactions are approved and records maintained which adequately support the administration and activity within the fund. Additionally, we reviewed the balance in the fund as compared to the authorized balance to ensure that all of the money was accounted for properly.

The overall objective of our review is to improve cash handling practices and reduce the potential for public funds to be mishandled. By meeting with department employees to discuss their procedures we attempt to encourage open communication about good cash handling procedures and increase awareness of the importance of having strong internal controls. We are also available to answer questions and otherwise assist department staff to design and implement new procedures.

### **2.2 Methodology**

We prepared a list of all revolving funds, trust fund checking accounts, change funds, and departments receiving cash in the county or at closely affiliated agencies. Based on findings from our review in 1997 and work performed by the State Auditor's Office in 1998 we selected funds and departments to include in 1998. We performed forty-eight reviews which included:

- Twenty-six areas which receipt money
- Seven change funds
- Five petty cash revolving funds
- Six checking account revolving funds
- Four trust fund checking accounts

Based on our selection criteria mentioned above in 1998 we did not review twenty areas which receive money, twelve change funds, seven petty cash revolving funds, and two checking account revolving funds, and one trust fund checking account. A complete list of all funds and cash receiving functions may be found in the exhibit on pages seven and eight.

We completed our review of each fund or cash receiving area with a visit to the custodian. During our visit we verified the amount of money on hand or in the checking account and completed our checklist of key compliance areas and control procedures. Based on our review we identified areas where controls were strong and functioning as intended. We also identified areas where controls could be improved. We discussed both of these areas with the fund custodian and formalized our findings and recommendations in a memorandum to the manager.

### **3.0 Purpose of Revolving Funds, Change Funds & Internal Controls**

#### **3.1 Revolving Funds and Change Funds**

The purpose of **revolving funds** is to provide a means of paying for expenditures that are not appropriate or cost effective to process through the county's purchasing, requisition and warrant systems. These funds provide an expedient and cost effective means of paying for emergency needs, small dollar purchases and to issue refunds. The fund is replenished by submitting a voucher along with original receipts and supporting documentation to the Accounting Department. In turn, Accounting generates a warrant to replenish the fund. The purpose of **change funds** is to provide money for custodians and cashiers who need to make change when receiving cash payments. As of December 1998 there were a total of twenty **revolving funds** and nineteen **change funds** in Clark County.

To establish these funds departments describe the need for the fund and formally request approval by the Board of County Commissioners (Board). Once approved by the Board, the Treasurer's Office authorizes a warrant to establish the fund in the approved amount. The custodian issues the money for the purchase only after receiving complete documentation and proper approval for each purchase. Some examples of **revolving funds** include:

- **The Sheriff's Civil Checking Account Revolving Fund** is used to refund overpayments made by attorneys and others who mail in checks to cover the cost of serving civil papers.
- **The Coroner's Petty Cash Revolving Fund** is used to purchase small items like rubber gloves and bed sheets on short notice.

Examples of **change funds** are:

- **The Auto License Change Fund** is divided among work stations and is used to provide change to citizens paying vehicle registration fees in cash.
- **The Building Department Change Fund** is used by the department's cashier to provide change when developers and citizens pay for building permits and other charges with cash.

#### **3.2 Trust Fund Checking Accounts**

**Trust fund checking accounts** represent money collected and held by a county department on behalf of another agency or individual. The money is not the property of Clark County. The funds are placed in an account and disbursed as required to other parties. As of December 1998 there were five **trust fund checking accounts**. Examples include:

- **Inmate Trust Checking Account.** When an individual is booked into the county jail, any money on their person is placed into an account for their use to buy small items such as candy or toothpaste during their stay. Other friends or relatives may also deposit money into the inmate's account during their stay. Upon release, a check is issued out of the trust account and made payable to the inmate for the balance in their account.

- **District Court Camas Checking Account.** The District Court satellite office in Camas collects municipal fines on behalf of the cities of Camas and Washougal. The money is collected and placed into a checking account. On a periodic basis a check is written to disburse the money to the proper jurisdiction.

### **3.3 Cash Receipts**

Several departments throughout the county receive payments in the form of cash or check. We identified forty-six areas with this responsibility. Many of these areas also have **change funds** which, as described earlier, are used to make change for customer payments processed over the counter. There are a variety of areas within the county which process **cash receipts** and include some of the following:

- **Recording and Marriage License.** This department processes payments received to officially record documents, to issue marriage licenses, and to provide copies of documents.
- **Superior Court.** Payments are received in this department for court video tapes, transcripts, and restitution collected by the Clerk's Office.

### **3.4 Internal Controls**

Internal controls are the operating systems maintained by management to safeguard public assets and comply with policies and laws. It includes procedures and daily activities as well as the atmosphere and attitude promoted by managers.

A good system of internal controls should minimize the potential for errors or irregularities to occur. If they do occur, good internal controls should detect such errors or irregularities in a timely manner during the normal course of business. This is generally achieved by:

- Making sure cash handling and record keeping duties and responsibilities are divided among several staff.
- Documenting all expenditures with original receipts and the proper approval authority.
- Balancing transactions on a daily basis and reconciling the balance in the fund to the bank statement and/or Treasurer's Office deposit receipts monthly.
- Replenishing revolving funds monthly and at year end.
- Documenting internal control procedures and conducting random reviews of deposits, reconciliations, and other documentation to establish that procedures are being followed and revenues and expenditures are reasonable.
- Promoting an attitude and environment that helps perpetuate good internal controls.

Managers are responsible for establishing internal controls but it takes the commitment of their staff to make them work. In addition, supervisors, staff and management in the Treasurer's Office and Auditor's Office maintain documentation, record transactions, provide reports, and perform audit services. Trained staff and sound management all serve to maintain operating systems and environments that promote strong internal controls.

## **4.0 Summary of Findings and Recommendations**

## **4.1 Findings and Recommendations**

Overall we found the revolving funds, change funds, and cash receipt functions were well managed and balanced to their authorized amounts. We compliment the managers and fund custodians for their efforts to maintain excellent documentation and strong internal controls in the administration of these types of funds. The results of our reviews were summarized in a memorandum and provided to department managers and fund custodians. Some of the more common recommendations we made are listed below. Our recommendations, summarized by type of fund and cash receipting function, are also listed in the exhibit on pages seven and eight.

### **Revolving Funds, Change Funds, and Cash Receiving Functions**

**Improve security of fund and related records.** All revolving funds, trust fund checking accounts, change funds, cash receipts and related records should be properly secured with access restricted to only the designated fund custodian or alternate custodian. This is important to reduce the potential for mishandling of public funds. Proper security should include storing the cash or check book in a locked box or locked drawer and changing the combination on the safe or the lock(s) when there is a change in custodian or alternate custodian. If a receipt book is used, it should also be secured. If it is not locked in a drawer then at a minimum it should be placed out of sight to help prevent possible mishandling. These types of recommendations were made in **eight** of our reviews. One was a repeat recommendation from our last review.

**Separate Key Duties.** Departments should maintain a proper separation of duties when administering their funds and receiving payments. A proper separation of duties is achieved when one employee does not handle all aspects of a transaction. We found **five** instances where the fund's custodian originated and authorized payments, issued the cash or check, posted the payment to the customer's account, and later reconciled the fund for replenishment. Separating these duties promotes the timely detection of any errors or irregularities that may occur.

### **Cash Receiving Functions**

**Review deposits.** On a routine basis department managers with cash receiving responsibilities should review deposits to determine that funds were deposited as required and amounts were posted to the proper General Ledger account. Good procedures dictate that managers should complete this review at least quarterly in order to make necessary corrections in a timely manner. We made recommendations to **five** departments in particular which should begin doing this review. The Auditor's Office is available to help these departments get started with this review.



**Make deposits within 24 hours.** The Revised Code of Washington (RCW) chapter 43.09.240 requires all receipts to be deposited within 24 hours or the next business day unless the Treasurer has granted an exception where daily transfers would not be feasible or practical. In addition to being required by law timely deposits help reduce risk the risk that checks will be tampered with if lost or stolen. We found **six** instances where deposits were not made in accordance with this requirement. One of these was a repeat recommendation from our last review.

**Restrictively endorse checks when received.** Checks should be restrictively endorsed immediately upon receipt to help reduce the risk of checks being tampered with if lost or stolen. Some departments wait to endorse the checks when they prepare the deposit. We found this occurred in **five** instances.

**Other recommendations** - Other less frequent recommendations include:

- **Regular and timely fund replenishment** - Revolving funds should be replenished on a regular basis. Additionally, the funds should always be replenished at year end to make sure all expenses are recorded in the proper accounting period. When a checking account is replenished, only those checks which have been paid by the bank should be included for reimbursement. If checks are replenished before they have been paid by the bank, and the checks are later voided, the fund could accumulate an amount that exceeds it's authorized balance. The custodian must then return the excess money to the Treasurer. We also found instances where the replenishment check was not cashed and placed in the fund within two business days of receipt. Timely deposits help avoid any possible mishandling of funds. These recommendations were made on **four** reviews.
- **Review voided transactions** - Voided transactions should be well documented and adequately reviewed to help prevent and detect fraud. All copies of the voided receipts should be retained and the reason for the void should be documented. Managers should review voids on a routine basis to determine that adequate documentation exists to support the validity of the voided transaction. We made this recommendation in **four** of our reviews.

The matrix on the following page summarizes the recommendations we made for each fund or cash receiving area. These recommendations were offered to the managers in the various departments to help strengthen internal controls over county funds. The Clark County Auditor's Office Internal Audit Division is available to assist departments with any questions they may have regarding internal controls and the management of their revolving funds, change funds, and trust fund checking accounts. We would like to thank the department managers and fund custodians for their assistance and cooperation during our reviews.

# EXHIBIT

## DEPARTMENTS AND RECOMMENDATIONS

Department (1)	Type of fund (2)	Extended cash receipt testwork	No testwork in 1998	Reviewed by State Auditors in 1998	No recommendations	RECOMMENDATIONS (3)												
						Develop written procedures	Reconcile cash & check composition	Reconcile & replenish fund according to BARS	Make deposits in accordance with BARS	Management review of deposits	Secure fund and/or related records	Cancel receipts to prevent reuse	Separate key duties	Endorse checks when received	Refund due to Treasurer	Review sequence of issued receipts	Review voided transactions	Other
Assessment & GIS	CH	✓		✓	✓													
Auditor - Accounting	CH		✓															
Auditor - Accounting	CK		✓	✓														
Auditor - Auto License	CH		✓															
Auditor - Elections	CH		✓															
Auditor - Rec. & Marriage License.	CH	✓		✓	✓													
Auditor - Rec. & Marriage License.	CK		✓															
Boundary Review Board		✓									✓							✓
Child Abuse Intervention Center			✓															
Clark County Fair			✓															
Clark County Fair - non fair activities	CH	✓											✓					✓
Clerk	CH		✓	✓														
Clerk Trust Account	CK		✓	✓														
Co-op Extension	CH	✓						✓						✓				✓
Co-op Extension	PC											✓	✓					
Co-op Extension	CK																	✓
Comm Dev - Animal Protection	CH		✓															
Comm Dev - No. Co. Resource Ctr		✓		✓							✓							
Comm Dev. - Planning & Code	CH		✓	✓														
Community Development	PC		✓															
Commissioners		✓																✓
Coroner	PC							✓			R	✓						
Corrections - LEC	CH		✓	✓														
Corrections Employment	PC		✓															
Corrections Mabry	CH		✓															
DCS - Grants		✓			✓													
DCS - Loans		✓					✓											
DCS - No. Co. Resource Ctr		✓		✓							✓						✓	
District Court - Camas	CH	✓					✓		✓		✓		✓					✓
District Court - Camas	CK																	✓
District Court - Downtown	CH		✓															
Drug Task Force		✓																✓
Drug Task Force - Car Fund	CK						✓		✓									✓
Drug Task Force - Drug Buy Fund	PC																	✓
Facilities Management			✓															
GRI - Tri Mtn Golf Course		✓																✓
Human Resources			✓															
Juvenile Court	PC		✓															
Juvenile Diversion	CH		✓															
Prosecuting Attorney (PA)	CK				✓													
PA - Adult Diversion	CK	✓			✓													
PA - NSF Diversion	CK	✓														✓		✓

# EXHIBIT

## DEPARTMENTS AND RECOMMENDATIONS

Department (1)	Type of fund (2)	Extended cash receipt testwork	No testwork in 1998	Reviewed by State Auditors in 1998	No recommendations	RECOMMENDATIONS (3)												
						Develop written procedures	Reconcile cash & check composition	Reconcile & replenish fund according to BARS	Make deposits in accordance with BARS	Management review of deposits	Secure fund and/or related records	Cancel receipts to prevent reuse	Separate key duties	Endorse checks when received	Refund due to Treasurer	Review sequence of issued receipts	Review voided transactions	Other
Parks - Downtown receipts			✓	✓														
Parks - Frenchmans Bar Park			✓															
Parks - Lewisville Park			✓															
Parks - Salmon Creek Park			✓															
Parks - Vancouver Lake Park			✓															
Public Information Office	PC		✓															
Purchasing		✓		✓					✓					✓		✓	✓	✓
Public Works (PW) - Administration		✓							✓	✓	✓			✓			✓	✓
PW - Administration	PC				✓													
PW - ER&R	PC			✓				✓				✓						
PW - Operations Administration	PC		✓															
PW - Real Property Services		✓								✓				✓		✓	✓	✓
PW - Road Permits	CH		✓	✓														
PW - Sewer Treatment Plant	PC		✓															
PW - Survey/Records	CH	✓																✓
Risk Management - General Liability	CK																	✓
Risk Management - Industrial Insurance	CK												✓		✓			✓
Sheriff - Bail and Fines		✓								✓								
Sheriff - Civil Records	CH	✓																✓
Sheriff - Civil Records	CK														R			
Sheriff - DARE Program		✓							✓	✓			✓					✓
Sheriff - Informant Fund	PC		✓															
Sheriff - Inmate Trust Fund	CK	✓					✓				✓						✓	✓
Sheriff - Sex Offender Registration		✓			✓													
Sheriff - Shooting Range		✓																✓
Sheriff - Work Release			✓															
Superior Court Administration		✓					✓		✓	✓								
Treasurer			✓	✓														
Treasurer - Change Machine	CH		✓															
<b>TOTALS</b>		<b>26</b>	<b>33</b>	<b>14</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>7</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>22</b>
<b>REPEAT RECOMMENDATIONS</b>					<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Notes:**

- (1) Those departments which receipt money are presented in bold
- (2) PC - Petty Cash; CK - Checking Account; CH - Change Fund
- (3) R - Repeat Recommendation from 1997.